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August 15, 2006

AGENDA ITEM 6

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** Self-Funded Health Plans Third Party Medical Administrator Request for Proposal: Approval of Business Model and Process
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Staff recommends the Committee approve: 1) the Schedule of Events for issuance of a Medical Administrator Request for Proposal (RFP) for the self-funded health plans; 2) the RFP business model and fiduciary responsibility; and 3) the Board's participation in the evaluation process and interview evaluation method.

IV. BACKGROUND:

On November 16, 2004, the Board agreed to extend the contract with Blue Cross of California through December 2006, and then re-evaluate whether to issue a Request for Proposal (RFP) for a new third party administrator for medical services for the self-funded health plans (Medical Administrator RFP). Subsequently at the September 2005 Health Benefits Committee meeting staff recommended and the Board approved an additional twelve month extension (through 2007) in order to issue a Medical Administrator RFP in 2006.

V. ANALYSIS:

The Medical Administrator RFP for CalPERS self-funded health plans is scheduled for release September 14, 2006. The proposed Schedule of Events is provided in Attachment 1. Staff has selected Watson Wyatt & Company to assist with the RFP preparation and some elements of the analysis.

Staff is recommending Board approval for the following: 1) the Schedule of Events (Attachment 1); 2) the RFP business model and fiduciary responsibility; and 3) the Board's participation in the evaluation process and interview evaluation method.

Business Model and Fiduciary Responsibility

The Medical Administrator RFP will be designed to solicit bidders to serve as the Third Party Administrator for the PERS Choice Basic, PERSCare Basic, PERS Choice Medicare Supplement, and PERSCare Medicare Supplement plans. Bidders will be required to provide information on the following elements for self-funded programs:

- A high efficiency physician network
- Disease management and wellness programs
- The ability to coordinate programs with the Pharmacy Benefit Manager (PBM)
- A self-funded HMO product

Staff recommends movement towards a more transparent financial arrangement with the self-funded health plans' third party medical administrator. This recommendation is addressed in the Watson Wyatt presentation, which will be distributed and presented at the August 15, 2006 Health Benefits Committee meeting as Attachment 2.

RFP Process

- Board Participation in the Evaluation Process

Attachment 3 describes the staff recommendation for Board participation in the evaluation process. A key change from previous medical administrator RFPs is the recommendation that staff immediately undertake negotiation of contractual and financial terms with the selected finalist after the Health Benefits Committee recommends approval of the selected finalist to the Board of Administration in February 2007. If unable to reach agreeable terms with the selected finalist, then staff will undertake negotiation with the next highest scoring finalist. The Board will award the contract after completion of successful negotiation and agreement of contractual and financial terms. Staff recommends this approach to maximize CalPERS leverage to achieve the most favorable financial and contractual terms possible.

- Board Interview Evaluation Method

Attachment 3 recommends a scoring method for the Board's interview process. In November of 2003, the Board adopted a policy which applies to its evaluation of proposals, conducting of interviews and awarding of contracts. Under this policy, the Board sets the maximum point allocations for scoring by staff and by the Board, and designates the "apportionment method" to determine the Board's interview points to be awarded to the finalist.

The apportionment method requires the Board to award the maximum number of interview points to its highest ranked bidder, and the remaining bidders will receive interview points proportionate to their ranking (the incremental difference between bidders is determined by dividing the number of points by the number of finalists). For example, if there are four finalists, the first-ranked receives 800

points, the second-ranked finalist receives 600 points, the third-ranked finalist receives 400 points and the fourth-ranked finalist receives 200 points.

VI. STRATEGIC PLAN:

This directly relates to Goal IV, Objective 2: assuring the long-term viability of self-funded health programs and exploring contractual arrangements with contractors that allow innovative changes in the delivery of health care systems.

VII. RESULTS/COSTS:

Staff anticipates the Medical Administrator RFP results to be more efficient and cost effective.

Staff is available to respond to any questions.

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Attachments